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BULLETIN OF THE UNIVERSITY OF UTAH

Volume 36

January 16, 1946

No. 4

A Program of Economic Reform
Under Private Enterprise

BY

DR. J. R. MAHONEY

Professor of Economics and
Director, Bureau of Economic and
Business Research



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*Tenth Annual Frederick William Reynolds
Memorial Lecture*

*Delivered at the University of Utah
January 16, 1946*

Published by the Extension Division
University of Utah
Salt Lake City

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THE REYNOLDS LECTURESHIP

The Annual Reynolds Lectureship at the University of Utah serves a double purpose.

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H. L. MARSHALL
President of the Reynolds Association

A PROGRAM OF ECONOMIC REFORM UNDER PRIVATE ENTERPRISE

Introduction

Man has not been able in his long sojourn on this earth to produce an economic system than can be designated completely satisfactory. Ideal economic systems have often been visualized in the imagination of idealists and occasionally plans for such projects have been set down in print. In the typical scheme, a large fertile island is pictured as the abode of an intelligent population, the well-trained members of which work together in complete cooperation and harmony and each individual performs the tasks for which his training and talents equip him. Production is carried on by the most modern machinery and methods and there are plenty of commodities and services for all with a great deal of leisure time available for enjoyment and personal achievement.

Attractive blueprints of such ideal economic orders have usually been put forward by advocates of collectivist economies and are extensively used as arguments for scrapping existing systems, any and all of which obviously fall far short of such perfection. It probably would not make much difference, however, just which form the economic system took, if all of these factors—abundant resources; extensive and efficient capital equipment; intelligent, hardworking, altruistic people—were present, the results would be highly satisfactory regardless of whether the form of economic organization was communistic, socialistic or private enterprise. The results will, on the other hand, be far from satisfactory under any or all of these systems; where abundance of natural resources gives way to scarcity, where capital is limited and production methods inefficient, where intelligence in the population is diluted with widespread ignorance, and where the angelic characteristics of altruism and cooperation are replaced by the selfishness with which the typical human being is so richly endowed.

No actual example of an ideal economic system has been known to exist, even though many attempts have been made to carry Utopian schemes into practice. The varied economic systems that have been tried throughout human history in various parts of the world have differed widely in results and some have clearly demonstrated their superiority over others. A careful examination of the results of these human experiments; the underlying economic principles of the production, distribution, and consumption of wealth; the physical features of man's environment; and the nature of man himself should afford an explanation of the varied results achieved. What is urgently

needed, is a thorough analysis of all factors involved and the systematic formulation of a program that will yield for each country the highest level of economic well-being that is attainable under the circumstances in which its economic activities must be carried on.

Measured by the quantity of commodities and services available for meeting the needs of the population and by some other important counts, the economic system in the United States has achieved the highest relative position of economic success in the course of human experience. There has been throughout our history steady progress in the elevation of the standards of economic life and improvements in the dispersion of these benefits among the population. It is one of the great paradoxes of history, however, that evidences of dissatisfaction with our economic system and its results have grown steadily.

Growth of Economic Reform Movements in the United States

In earlier stages of our history, discussion of programs of reform was restricted where now it is widespread. Reform was then essentially a matter of academic discussion where now programs of action have been formulated and have enlisted extensive support. There is even some support in this country for revolutionary programs of reform and unless improvements are soon made in our economy, these may garner increased strength. The most widely advocated of these programs are communism and socialism. Among the advocates of these systems are some who would use revolutionary methods in making the transition from our present system. There are many more of the adherents of these systems, however, who would accomplish their objectives through piecemeal change.

The great majority of reform movements in this country are, however, restricted to various modifications of our present economic system and usually limit their objectives to the correction of its undesirable features. It is certain, however, that a full accomplishment of the aims of some of these reform programs will severely impair the effectiveness of our system of private enterprise. Too many unwise restrictions and unsound changes may so restrict its chances for success that a breakdown of the system will occur and a collectivist system may be an unintended result.

There are now so many reform movements in this country, each with its special aims and class of supporters, that a careful reappraisal of the whole subject of economic reform becomes imperative. A program of economic reform should be developed that will most effectively accomplish the desirable modifications of our existing system. We should avoid sapping its vitality by unsound methods of reform or the advancement of the interest of special groups at the expense of the rest of society. Economic reform itself should become the subject of intensive and painstaking study. This should include a portrayal of shortcomings in need of correction, the careful formulation of

objectives and the devising of reform procedure designed to strengthen the desirable features of our economic system and correct the maladjustments. Such a program should aim at eliminating the causes of maladjustment instead of the treatment of symptoms or the use of methods which would perpetuate the conditions being treated.

Reasons For Reform Movements

Virtually all programs of economic change or reform embody provisions for bringing about a more equal distribution of wealth and income. In spite of the fact that the general standard of economic well-being in this country has been raised to the highest point in human experience, there is widespread dissatisfaction because of the failure of large segments of our population to share in this economic plenty. The chief objective of most of the economic reform programs that have been instituted in recent years in the United States has been to supplement the earnings of the low income groups, or in some other way increase their share of goods and services that results from the highly productive American economy.

More prominence has been given to the unequal distribution of income in the reform plans than to the unequal distribution of wealth; however, neither is neglected and they cannot be separated since the cause and effect relations operate both ways. High incomes provide the means of acquiring property and property in turn is the source of many large incomes. Much attention has also been given in some of the reform movements to curbing the power of those who exercise excessive control over the functioning of our economic system.

Aside from these basic reform movements, there is an evident growing dissatisfaction with the irregularities in the functioning of our economic system. The periods of prosperity and depression which alternately shift us from prince to pauper status have recently been the basis of vigorous and voluminous discussion and numerous remedial proposals. There is much earnest discussion of how best to meet the difficult problems of stabilizing our economy for smoother, more effective functioning in the period ahead of us. Attention is also being given to plans of insuring full employment and the need of our economy yielding a larger total volume of commodities and services. Experiences during the war period demonstrate the possibility of achieving a higher level of peacetime production through more effective use of our rich natural resources, our well-trained working population, our superb machinery and capital equipment and our efficient management.

That the population of the United States is determined to tinker with our economic system seems abundantly plain from our recent experiences and the current discussion of plans for the postwar period. It is a great deal more certain that various types of reforms will be adopted than it is that they will be intelligently planned. The

complex nature of our economic system and the dependence of human welfare on its effective functioning makes any program of economic reform highly significant and worthy of our most careful scrutiny.

Economic Reform Through Balancing the Economic Factors

One of the most important general objectives of a sound program of economic reform should be to create a balanced economy where each of the various factors of production and each occupation should be available in appropriate volume so that the income earned and the relative economic position should be fair and equitable and the total social product at its maximum. After achieving this balance, adequate provision should be made for adjustments to perpetuate it in an expanding and changing economy. Causes of unbalance should be removed as far as possible and the objectives of the program accomplished through an intelligent choice and direction of activities under democratic institutions.

For purposes of analysis of the principles of economic balance we may designate four factors of production:

1. Land or natural resources.
2. Labor—involving both physical and intellectual activities.
3. Capital—including all those instruments made by man and used for the production of other goods and services.
4. Entrepreneurship or management—involving the special function of assembling and coordinating all of the other factors in the process of production.

How the High Income and Excessive Economic Power of the Landowners Were Corrected

The ideal combination is an abundant supply of land, capital and entrepreneurs in relation to the population. Disparities in the relative abundance of these factors have been responsible for some of the most unsatisfactory features of the working of economic systems throughout human history. In times prior to the establishment of our modern industrial order, only two of these four factors were of primary importance: Labor and land, chiefly agricultural land. In the preindustrial period nearly all economic activity was connected with the cultivation of the land for the production of food and raw materials for clothing. Almost universally there was a relative scarcity of land and an overabundance of population. There were some few instances of a sufficient abundance of land for cultivation to meet all needs, but these experiences were usually of short duration and this favorable relationship normally disappeared as a result of an increase in population either from an excess of births over deaths or immigration from more densely populated areas. As the increasing population required an intensification of the cultivation of the land, the inexor-

able forces of diminishing returns reduced the productivity per worker until in the majority of cases, a level near subsistence was reached. Population increase brought forth new mouths requiring as much food, but unfortunately the new hands were employed under conditions that yielded smaller results than the hands previously employed.

Under such an economic system those who controlled the land were in a strategic position. They enjoyed both high income and great economic power. Political power, social prestige, and sometimes even religious power grew out of land ownership. In contrast, the landless working class, because of its relative superabundance, secured a low income which was an outgrowth of their low productivity and their weak bargaining power. The serfdom of the Middle Ages and the virtual slavery of earlier periods were the results of these unfortunate relationships between the worker and the available land.

For centuries the chief aim of virtually all programs of economic reform was the improvement of the condition of these landless masses largely through curbing the income and power of the landlords. A long series of reform movements designed to improve the status of the landless class in relationship to the landlords were instituted in France, England and many other countries. These great difficulties were eventually solved through the normal working of fundamental economic forces rather than through specific reforms seeking these results. The opening up to settlement of the Western Hemisphere, Australia, New Zealand, South Africa and other regions provided a means for fulfillment of the dreams of great multitudes of the land-hungry, overcrowded population of Western Europe. Cheap and effective transportation of the products of these newer regions to Europe greatly increased the food supply available to the population which remained. The whole relation of population to land was altered. From a condition of scarcity, there was relative abundance of the products of land. As a natural accompaniment of this change, both the income and the power of the European landlord diminished until neither one was a continuing incentive for extensive reform movements.

A great and fundamental economic reform had been accomplished, not by changing the economic system, but from a series of forces that brought a better balance between land and population. The great superiority of this solution of the most difficult economic problem of past generations over various other programs that were put forward to solve this same problem is clearly evident. It is merely an illustration of successful reform based on the working of the most elementary, but yet most basic of all economic principles. If a factor is too expensive, make it more plentiful and conversely, if the income of a factor is too low, increase the supply of the other factors. It is the most clear-cut example that history affords of the correct method of economic reform.

Reducing the Income and Power of the Capitalists

The most prominent of the current reform movements grow out of the scarcity of capital and the high degree of concentration of economic power and large earnings enjoyed by those who control this factor. Based on reasonable conclusions from the results of making land more plentiful, the current problem can be solved by the simple expedient of making capital abundant in relation to the other factors of production. The rate of accumulation of capital depends on the capacity to save, the strength of the desire of accumulation and on favorable institutions and policies for the protection of savings and capital.

In the highly productive American economy, savings may become so great that to fully utilize them may even tax the capacity of the most dynamic economic system. It is clear that the accumulation of savings in great stagnant reserves during the thirties was largely responsible for the unsatisfactory operation of our economic system during that period. Great sums withdrawn from the economic system in the form of savings were not returned in their accustomed manner to circulation in the form of investments. Consequently, our whole economic machine was thrown out of balance. Our pump priming and deficit spending were not sufficient to counteract the difficulties. Perhaps, because the remedies were inadequate, because of severe shock due to the novelty of the methods used or, more probably, because they were unsound as remedies. In any event, there was a demonstration of the basic need for the return flow through investment of any sums withdrawn from the economy in savings as a requisite for full economic health.

Other phases of this temporary surplus of loanable funds are of more immediate interest for the purposes of this discussion, especially the evidence it affords of the possibility, for the first time in our history, of accumulating savings at rates sufficiently rapid to more than meet current demands for new capital. If we can establish the economic feasibility of achieving an economic situation where the supply of loanable funds are great enough to continuously meet the demand for such funds and exert pressure that will lead to a downward revision in the rate of interest; then we can with confidence expect a number of far-reaching alterations in the working of our economic system and a solution of the problems growing out of a scarcity of capital.

Many of the features of our modern industrial economy that have been most severely attacked by critics of the system, and the removal of which has been the aim of most of the reform movements of the last several generations, can be corrected through the normal working of ordinary economic forces within the framework of our existing economic system by bringing all the factors into proper quantitative balance.

The plentiful supply of loanable funds and a progressive lowering of the rate of interest are evidences of changing economic relations that indicate a better balance between capital and the other factors of production. The scarcity of capital with the resultant high income and concentration of economic power has so long been characteristic of our economic system that many have come to consider these to be permanent features of any system of private enterprise. The fact that this is a mistaken notion makes it imperative to re-examine and call into question the soundness of all those programs of reform based on such an assumption.

During the long period from the origin of our modern commercial and industrial economy down to the present, the outlet for loanable funds has been so broad and the multitude of investments so many that a perpetual scarcity of capital has been taken for granted. It has not occurred to most people that these relations could be altered within the framework of our system of private enterprise. We probably would have arrived at this stage of altered relations earlier, had it not been for the great wastage of capital assets in two global wars and the paralysis of our economy in the period between the two conflicts.

The transformation that would take place naturally would be almost exactly parallel to that of the earlier period when both the power and the income of the landowning class were reduced by increasing the supply of the products of land. These changes came about through the unsupervised working of natural economic forces with results much more satisfactory to human welfare than could possibly have resulted from the adoption of any of the schemes of reform that had been proposed. We have abundant illustrations of the working of this same set of economic forces where many things that were formerly scarce and high priced have been corrected through a release of the economic forces that have made the scarce article or service both abundant and cheap.

It is a curious fact that some of the most strongly supported reform movements designed to reduce both the power and income of the capital owning class have fostered policies that would discourage savings and the disposition to make effective use of these savings. Such policies actually perpetuate and aggravate the very conditions the proposals were designed to cure.

In the earlier historical period when the power and income based on the scarcity of land were the chief objectives of the reform movements, any policy that contributed to new discoveries of land, made a more effective use of the existing supply, improved the means of transporting the products from distant lands, held the size of the population in check or facilitated the migration of people from overcrowded areas were based on sound economic grounds and contributed to a permanent solution of the problem. All of this was done

without changing the economic system and, in fact, was merely the normal results of the working of economic forces natural to the system of private enterprise. There is every reason to believe that the defects now considered by many to require drastic reform or a complete change in our economic system can be cured in a way that should be fully as satisfactory as the results of our former experiences.

Adjusting Profits to Reasonable Levels

Another important line of criticism that has been leveled against our system of private enterprise has been directed against the large accumulation of profits and their concentration in the hands of a comparative few. Some scheme of limiting the amount of profits or of abolishing them altogether has been a part of most of the modern programs of reform. It has been a prime objective of the socialists that this type of income be entirely socialized through government ownership and government management of all types of business. Other reformers have limited their proposals to varying rates of heavy taxation; still others have fostered projects to restrict the power of directing economic activity usually exercised in large measure by business management. Proposals of this type were especially prominent during the period of the thirties and have been carried to extreme points in some recent federal legislation.

The rapid rate of industrial growth in modern times and the growing complexity of business has created a continuing strong demand for entrepreneurs, or business enterprisers to use the more common term. The fact that the number of well-trained business managers has not increased as rapidly as the demand for their services has brought to this group the customary rewards of high income and great power that comes to all scarce factors. The most effective way of meeting this problem does not differ in the least from the methods that have proved successful in the case of the factors—land and capital. When scarcity of these factors was changed to relative abundance, or at least when a better balance was provided by making them more plentiful in relationship to the other factors of production, both the high income and the excessive concentration of economic power were corrected. It would be more appropriate to say that while history furnishes a clear-cut example of these results in the case of land, the case is not quite so clear yet for capital, since only the beginnings of readjustment were fairly under way when the outbreak of the war prevented the completion of the economic changes that could have been expected with confidence.

The way to meet the problems of high income and undue concentration of economic power in the hands of business enterprisers is to make business talent more plentiful. If this is done, we can expect that the natural competition among business leaders will reduce both the income and excessive power to unobjectionable levels

Since both high income and excessive power are based on scarcity, the only sensible way is to replace scarcity with abundance.

Many of the current proposals for meeting this problem and some of the actual policies that have been inaugurated operate to discourage new and old business enterprisers alike and thereby perpetuate the scarcity which is the cause of the economic problem the proposals are designed to correct. It would seem more logical to encourage those who are in business to stay and to attract a much larger influx of new talent. The spirit of enterprise is so strong in America that with moderate encouragement and a period of time that need not be unduly long we can have a sufficient number of highly trained enterprising business managers to operate all the enterprises in the entire American economy on a high plane of efficiency.

Until comparatively recently America provided no special facilities other than actual business experience for the training of business leaders. Shortly after the turn of the century, however, one university after another, slowly at first but with increasing momentum, provided more and more complete training programs for prospective business leaders. This branch of university and college training has in many cases now achieved a degree of development that places it alongside other well-developed professional schools. This academic training has been supplemented by a constructive training program by business itself. There have been a rapid accumulation of facts and clarification of principles and methods of business management. The efficiency with which American business enterprises are conducted has vastly improved.

There is no longer any basic reason for continued scarcity of business talent since we can train as many business enterprisers as we may need. By a further extension of our training facilities and proper encouragement, this factor should soon become so abundant that its income and power should require no special attention of reformers. Most of the schemes for reform that have received extensive support would merely perpetuate the scarcity or even intensify it by policies that tend to keep this factor scarce.

The economic and social benefits of an adequate supply of well-trained and enterprising business leaders is difficult to overestimate. All business, both large and small, would be run by efficient management rather than by second and third rate leaders. Only expertly managed business can pay good wages and produce high quality commodities for low cost. Economic opportunities will be developed into profitable business ventures that otherwise would remain undeveloped because of a lack of power to visualize the opportunities or of enterprise to undertake them. The standard of living of the population will be improved as products are made available at lower costs. There will be increased employment at better wages and a

more effective utilization of capital and natural resources. It should also serve to free business enterprises from the domination of the strictly capitalist group. This latter result will be made certain if at the same time the supply of loanable funds is also increased. Another important result of this basic change would be a reduction in both the rate and the total amount of profits.

Contributions to a better balance can be made by working for the proper adjustment of the supply of labor to these other factors. It is extremely fortunate that the great natural resources of the United States not only give this country a very favorable relationship between population and land but establish an ideal set of circumstances out of which savings can be large, which is a prerequisite to a rapid accumulation of capital. A well-developed system of university training in business is the principal agency through which an abundant supply of business leadership can be created. If we can now bring the factor labor into proper relationship with these other factors, then there should be an opportunity of creating in America a model economic system that should contain as many of the advantages as may be feasible under the limitation of human intelligence and man's physical environment.

It is unfortunate that small scale models of each of the rival plans of economic organization cannot be set up so that objective results in actual operation would be available for determining the relative merits of the different systems. The desirable features of the alternative economic systems are usually overemphasized and insufficient attention given to their weaknesses. At the same time, the shortcomings of the existing economic system receive undue attention until the impression gains wide currency that these weaknesses are its dominant features. In the main, the supporters of private enterprise confine their attention to pointing to its contributions and in maintaining its superiority over other systems. They devote altogether too little attention to any comprehensive plan to correct its faults and make it work more effectively for all.

Difficulties of Doing Away with Profits, Interest and Rent Under Socialism

All these problems of high profits, rent, interest and the exercise of excessive power over the economic system by those who receive these incomes are to be solved under the general program of the socialists or communists through a system of public ownership of all means of production. Business activities would be conducted through appointed business managers. All forms of income would be abolished except wages. The proponents of these systems contend that the payment of rent would be unnecessary for the use of land in production. Neither would it be necessary to pay interest for the use of capital nor profits for the conduct of business.

Great promises are usually made by the socialists and communists of large increases in wages as a result of distributing to wage earners the amounts that go for rent, interest, and profits under private enterprise. These high hopes are doomed to disappointment, however, since they are based on a misinterpretation of economic principles of production that operate in all economic systems. This is one of the main reasons why socialistic economic systems have worked differently than anticipated.

Economic rent, defined as a payment for the use of land and other natural resources in production, will arise in a socialistic economy in much the same fashion as in a system of private enterprise. Natural resources, such as agricultural land, vary greatly in productivity and this causes the cost of producing farm products to vary inversely with the richness of the cultivated tract and directly with its distance from the market. Since the price of the product must be high enough to defray costs on the poorest land needed to produce the supply, there will be a differential surplus return to the cultivators of the land nearer the markets and land possessing fertility above the marginal land. These are the results of physical factors that cannot be changed by merely changing the economic system. Similar products regardless of what land they are raised on and the economic system under which they are produced, would tend to sell for the same price and this price would need to be sufficiently high to cover the cost on the poorest grades of lands used. This price would necessarily be more than sufficient to cover the cost on all other land. While it is true that this surplus or economic rent would come into the public treasury under the collectivist systems, much of it now comes to the same place through taxation and virtually all of it could be taken in taxation without interfering with the effective working of the system of private enterprise.

In actual practice, it has also been found to be impossible to eliminate profits under socialism or communism. Under every type of economic system, there will be varying costs incurred by different producing units. Some of these units will be well managed, others poorly managed. Some will be successes, others failures. Since the tendency would be to pay the same rate of wages to all workmen of similar skills regardless of where they worked and to sell similar products for the same price, the returns would be higher than costs for the products of the better managed businesses, little or no more than enough to pay the costs of the less well managed units and not enough to cover costs on others.

As pictured by the socialists and the communists, their systems would not permit the payment of interest since all capital would belong to the state; but this would not in anyway alter the necessity of making extensive provisions for capital accumulation, nor alter the fundamental proposition that capital accumulation comes from saving. Under private enterprise saving is essentially a matter of individual

choice, and the payment of interest is the reward for this action. Saving under a collectivist system usually takes a compulsory form for which no payment is made. The device used is to raise the prices of consumers goods and services high enough so that those engaged in their direct production can only purchase a portion of the products with the wages they receive. This leaves a surplus of consumers products available for another portion of the working population engaged in the production of capital goods. Unless production is carried on under the collectivist system with great efficiency so that there is a sizable margin of production in excess of the reasonable needs of the people, this enforced saving will result in depressing the standard of living that already may be abnormally low. The recent appeals of some of these collectivist nations for capital loans from the United States afford some evidence that there is no magic in socialism that makes the accumulation of capital a simple and easy matter.

Profits, rent and interest are merely the particular form that payments take under private enterprise for the performance of essential functions that are found in all economic systems. These facts lend support to the contention that there is no panacea in trying to solve our economic problems by changing the economic system.

Program for a Balanced Economy

May I now present in broad outline form some of the chief elements in a program that will give effect to the principles that have been presented—a program which, if completely carried out, will provide the greatest opportunity for a satisfactory working of our economic system under private enterprise. The most basic principle in this program is that of bringing all of the factors that have an effect on human welfare into proper quantitative balance with each other. Some factors must be increased and made as abundant as possible and still others reduced and held in appropriate relations to others in order to produce the desired results.

Every effort should be made to maintain, increase and restore the fertility of the soil. Practices that will produce these results should be promoted among the farmers and wherever necessary should receive support by appropriate government agencies. A comprehensive soil conservation program and the promotion of reclamation projects would form important parts of this program.

There should be long range programs of judicious timber management that will seek to maximize the growth of new timber and conservatively use the existing stands of timber to insure their most effective and continued use.

A comprehensive program of mineral resource investigation should be inaugurated that will reveal the extent and nature of our

metallic and nonmetallic mineral resources. The program should provide for legitimate use that will avoid waste. Resources that are scarce or easily exhaustible should be conserved.

All renewable resources such as water power should be used to the maximum, especially where this will supplant the use of exhaustible resources.

The diligent pursuit of this program is necessary to insure the continued high productivity on the American farms, in the mines and in the forests that have been basic in the past to the abundance of reasonably priced consumable products. The continuation and improvement of the plane of living of the American people is absolutely dependent on a suitable natural resource foundation.

Of equal importance in the maintenance of a high plane of economic well-being for America is a population of a size appropriate to the resources. It is not the absolute amount of farm land and other natural resources as measured in acres and tons that is important for human welfare, but rather the relation between the quantity of these resources and the size of the population ready to use them. Throughout the history of America from the earliest colonial settlements until comparatively recent times, vast undeveloped resources were a constant challenge to the population as it spread slowly westward across a vast continent. The American frontier with its unoccupied stretches of fertile land has now vanished, the expansive area of virgin timber land has been severely reduced by burning and wasteful lumbering, and the greatest heritage of mineral resources any country ever had, has been used as though it would last forever.

In spite of many improvident practices of the past and the rapid increase of the American population, we are still in a more fortunate position than any other great nation and our resources in relation to our present population are still sufficient to support a high plane of economic well-being. There is even room for a moderate increase in our present population providing the suggested measures for conserving natural resources are carried out and there are continued rapid improvements in the arts of production. We must recognize, however, that overpopulation can bring as much disaster to the American economy as it has brought to old overpopulated countries. Man has not yet devised a plan of circumventing the powerful forces of diminishing returns as a larger and larger population seeks sustenance from a given area of land. The only avenue open is to see that the population is always held in such quantitative relationship to resources so that production can proceed under favorable circumstances.

Another of the vital elements in this program of reform is the promotion of the accumulation of capital to the end that all production can be carried on with a plentiful supply of the most modern machinery and equipment and that durable consumer goods that

contribute so much to a more complete living for the population will be available on favorable terms. To accomplish these aims, it will be necessary to promote thrift so that the savings available for the production of capital and durable consumer goods will be large and the interest rates low. The quality of capital goods and other instruments purchased by these savings should be constantly improved by the encouragement of inventions and research.

The great body of immaterial capital consisting of scientific information and knowledge of methods and processes of production should be added to as rapidly as possible through the encouragement of research by both private and public agencies. This type of capital which is one of the most important factors of production is rapidly approaching material capital in economic significance.

Still another important part of the program of economic reform will be to provide for the training of an adequate supply of entrepreneurs or business managers. This is essential to improving the efficiency with which all enterprises are conducted. It would greatly accelerate the development of new business enterprises to meet the needs of new and changing desires of the consuming public. It would afford a more ready transfer of workers from the declining economic activities to new activities and thus diminish unemployment. It would increase the demand for workers and all other factors of production, and by raising their productivity contribute directly to an increase in wages and the standard of living of the working population. It would result in a decline in the rate of profits that would be necessary to induce a sufficient supply of business leaders and it would also, through competition, reduce the relative power of business leaders in relationship to the power exercised by labor and other factors.

A sound program designed to accomplish these results would be almost the exact opposite of policies now receiving widespread support. The net effect of some of the current policies will be to discourage our present business leaders and cause many a young man to forego a career of business leadership in favor of occupations less subject to criticism and restrictive legislation. Business regulations of some sort are necessary in our complex society. We should exercise great care, however, that these regulations are restricted to actions necessary to protect the public interest and do not at the same time discourage enterprise and destroy the dynamic features of American economic life. Special taxation on monopoly profits may be justified but an indiscriminate heavy taxation of all profits will produce disastrous results. The high profits that result from new and improved methods of conducting business are a clarion call to additional enterprisers to attempt similar methods. Production is thereby increased and forces of competition soon bring about a reduction in price so that profits return to normal. Business enterprisers employing the new methods or new inventions enjoy a high rate of profit, but this only for a short time and the ultimate benefits

are passed on to the people in the form of better products or lower prices. A high rate of taxation on profits that would discourage enterprise will prevent or retard the rate of introduction of new products or the use of improved methods of production.

Key Position of Education in Creating Economic Balance

The key position in this program of economic reform must be occupied by education. Through this important agency great contributions can be made to the balancing of the various factors on which an effective economic system must rest. The proper kind of an educational program will contribute directly to the development of an appropriate program for the conservation of natural resources. It is basic to the foresight and habits of thrift on which the accumulation of capital depends. By increasing the productivity and earning power of the population, education enlarges the margin out of which savings can take place. It contributes directly to the accumulation of immaterial capital in scientific information and the improvement of methods and processes of production. It is the chief means for the development of an adequate supply of well-trained entrepreneurs which is so essential for the efficient management of business enterprises. The education of the population is essential to any program of maintaining a proper balance between the population and the supply of natural resources.

Education has the primary responsibility of developing a healthy well-trained population that can supply vigorous, skillful and intelligent workers to carry on the numerous and varied activities of the economic system. Abundant natural resources and efficient instruments of production merely furnish an opportunity that requires an educated population to utilize to the fullest advantage. Our millions of poorly educated workmen who are incapable of efficient production are a counterpart to depleted natural resources, submarginal farm land and inefficient and obsolete machinery.

In a more specific sense the primary function of a country's system of education is to provide the training that will bring about an appropriate distribution of the working population among the various occupations that will most effectively meet the requirements of the economic system. The test of how well the schools are fulfilling this important function will be found in the supply of trained workers in relation to the economic needs in each of the different occupations.

How to Eliminate Occupational Poverty

Most of the poverty that now exists in America is due to overcrowded conditions in a few of the occupations. There are too many millions of people in those occupations which require only a minimum of skill and training. This overcrowded condition reduces the marginal significance of their work to a point where earnings are very low,

and except for periods of brisk functioning of our economic system, a large portion of such workers are not utilized in production at all. The great unemployment that has become so serious in recent decades is made up predominantly of mass unemployment in a few occupations and does not represent general unemployment for all occupations.

This unemployment was almost completely eliminated during the war period, but this seemingly required the removal of some ten millions of workers for service with the armed forces coupled with a great expansion in the demand for commodities that these laborers were useful in producing. It is highly probable that we will again soon face serious unemployment in these same congested occupations in the postwar period. The recent wartime experiences, which were similar to those of World War I, serve to illustrate the primary causes of this condition. In normal times there are just too many workers of this type available in relation to the needs for their services. Since it is only under unusual circumstances that the demand can be expanded to absorb all of the available workers, it is evident that the approach to this problem must come from reducing the number in these occupations.

Data are now available to show that these overcrowded occupations are made up predominantly of people with very limited education and training. Many who have failed in other occupations add to the congestion. Our entire policy should be concentrated on reducing the numbers in these congested occupations to a point where the employment opportunities for those seeking work will permit earning power on a satisfactory level. Low income and unemployment in these occupations are not inherent features of our economic system. These are due to the unfortunate relationship between the number available for these services and the existing employment opportunities.

The high income and satisfactory employment conditions in some occupations are due primarily to the restricted number in relationship to the opportunities for employment. A system of public education should provide the means of directing enough of those who would otherwise go into overcrowded occupations into these more favorable occupations until an appropriate disposition of the working population has been consummated.

Improving Conditions in Rural America

The unfortunate economic conditions that have prevailed in American agriculture in recent decades are due to the same set of causes. The accumulation of agricultural surpluses in the period before the war so depressed the price for farm products that the income of the farm population was far from satisfactory. Numerous proposals to remedy this condition occupied a prominent position in the discussions of public policy. The increased demand for farm

products during the war period rather quickly transformed the economic conditions of the American farmer, bringing to him above normal earnings. These experiences illustrate how unfavorable conditions can readily be corrected by developing the proper balance between the forces of demand and supply. We cannot, however, depend upon a recurrence of wars to solve these problems of unbalanced farm production and unemployment of great masses of our population. This balance can be achieved as readily by decreasing the supply as by increasing the demand.

One approach to this problem has been to take some of the farm acreage out of production, but it will be easy to offset this production loss by a more intensive cultivation of the remaining acreage. A much more basic approach to this problem would be to achieve a proper balance by reducing the number of farmers.

It is well known that the standards of education in rural America are far lower than in the urban sections. Less than half the children of high school age are attending school. For many no high school facilities are available. In 1940 there were still 114,000 one room schools in America indicating the restricted character of rural elementary education. Great masses of our rural people are poorly trained for their farm activity and only a small portion have adequate training to equip them to become effective workers in other lines of activity. The result is that too many of them remain on the farm to swell the agricultural production and undermine the economic position of all farmers. With a well-developed system of rural education, the surplus rural population should move much more readily into other lines of activity. This would reduce the farm population and production to a point where prices and incomes of the farmers would be satisfactory. Under such circumstances farming should be as attractive as other occupations.

Causes of Regional Poverty

There are certain regional differences in unemployment and poverty that can be traced directly to differences in educational standards. The school facilities in the Southern portion of the United States are markedly inferior to those in some other sections of the country, and account for a large portion of the poverty of that area. The unfortunate conditions that result from these low standards of education are diffused through the rest of the country by the readiness with which the untrained masses of the South move into the North and West, where they contribute heavily to the poverty and unemployment of those sections.

This tendency to interstate migration precludes the possibility of any one state or section achieving a desirable balance of occupations through its own efforts. Any state attempting by itself to thin out the overcrowded occupations and thus improve the economic conditions in these classes would find its efforts largely nullified by

migration from states with lower standards of education. It is evident that some concerted program of improving the educational standards all over the country is necessary to the achievement of a desirable occupational balance anywhere in America. The cities must help the rural sections, and other sections must help the South raise educational standards as an important part of their own program of solving the problem of poverty and unemployment.

For a long period of time the effects of the school systems of America in diverting the stream of new workers away from the overcrowded occupations were offset by a steady stream of immigrants from other countries. This immigration was made up predominantly of people with low standards of education, most of whom found their way into the overcrowded occupations in America to perpetuate their low income and unfavorable conditions.

Restriction of immigration is necessary also in order to maintain a proper balance between the population and the natural resources. Unrestricted immigration would have the eventual result of overcrowding this and other high standard countries. It would eventually bring all countries to the same overpopulated condition. America will perform the greatest service to the world, if it demonstrates the beneficial results of a well-balanced economy and then uses its influence to help secure similar results in other countries.

Change is the most characteristic feature of American economic life. This is a necessary feature of a dynamic economy. We can expect that this feature will be perpetuated as long as we promote science and invention, and afford freedom for new enterprise and methods of production. Our actual experience is that a large portion of those people who have had specific vocational training are working at entirely different kinds of jobs for which they have had no training. The vocational program of the future must place greater emphasis on a type of training that will permit readjustments to meet the needs of a changing world. A large portion of those in the overcrowded occupations have well-developed skills for which they have found no demand. More emphasis will need to be placed on a broad general education with the types of basic training that will permit adaptations to changing types of work.

Readjustment in Economic Status of High Income Occupations

It should be recognized that a training program that will reduce the number in the overcrowded occupations and thereby increase their income and improve the economic conditions under which they work will, at the same time, reduce the income and the relative economic position of those in the occupations whose numbers are increased. It is often remarked that the professions and other high income occupations are already overcrowded and that there is, therefore, no room for the transferal of individuals from other more crowded occupations. This is based, however, on a misinterpretation of funda-

mental economic facts. It is pointless to make any statement regarding the saturation point in any occupation without reference to a certain rate of pay or standard of income. It is undoubtedly true that at a standard charge for services of the medical profession, only a certain number can be fully employed. Any increase in those trained for the profession would result in either unemployment or a division of a fixed amount of work among a greater number. However, if the medical fees are reduced, more physicians can find full employment. It may not be easy to state how elastic the demand for these professional services is, yet it is safe to say that the American people could very well utilize the services of many more physicians. The same generalization would hold with regard to the other high income occupations.

It is a universal principle in the demand for labor or the services of any occupation that a greater quantity will be utilized at lower rates of pay. In the process of balancing the occupations, there will be a marked increase in employment in all of the present high income occupations as the income level is reduced. This generalization would apply with equal force to the profession of business management that we have placed in a separate category as one of the four factors of production.

Questions may be raised as to how far this leveling process should proceed. It should be obvious that this will be governed largely by the differences in the inducements that must be offered to secure an adequate supply of workers in the different occupations. For those requiring long periods of expensive training, there must be a differential in income sufficient to compensate for the time spent in training and the extra expenses involved. A proper balance will have been achieved when equal skill and effort are rewarded by a rate of pay that would be the same regardless of the occupation.

This program does not in anyway carry the implication that all the members in the same occupation will receive the same rate of pay. In any system great advantages will come from insuring greater rewards to those who work harder, who have greater skill or pursue their tasks more intelligently. Any attempt to eliminate this differential is likely to discourage the use of these desirable attributes. Specifically, the aim should be to eliminate high incomes which are directly due to scarcity created by obstacles to the free movement of workers into certain occupations, without in anyway interfering with income due to the use of superior talents or traits that result in increased production. On the lower end of the occupation scale the aim should be to raise incomes through eliminating the unfortunate overcrowded conditions of such occupations.

The question may well be raised at this point, whether the distribution of talent in the population is such that with a well-developed training program there will be a sufficient number with the talent that may be required for success in some of the occupations to bring about

this reduction in disparities in occupational income. It may be difficult to ascertain just how much undeveloped talent there is in the American population, but it is undoubtedly very large and it may very well be that it is present in sufficient amounts to permit a balanced occupational distribution.

This difficulty does not seem quite so great, however, if attention is given to ways in which special talent may be utilized with greater economy. We may have only a relatively small supply of talent capable of achieving the highest degree of success in such occupations as business management or some of the learned professions, but at the same time, it is undoubtedly true that many of those with such talents are spending much of their time at tasks that could be effectively taken care of by those with less talent and training.

This balancing process will not require a wholesale transfer from the lowest income group all the way to the highest income occupations. There can be shifting all the way along the line. It seems safe to say that the supply of undeveloped talent will be found to be great enough to permit the consummation of the program here proposed.

Many of those in the high income groups will object, some strenuously, to the transformation suggested. Some in these sheltered occupations may consider the differentials that have existed in the past as more or less a fundamental right that should be preserved. This point of view is essentially similar to that of the landowners of a previous generation and possibly also to the views of some of the capitalists and the entrepreneurs of our present generation who view with deep concern the economic changes which reduce both their income and their economic power. Surely the fundamental principles of democracy cannot support a program that would seek to perpetuate specialized privileges for any group in our economic structure by the maintenance of barriers to an occupational redistribution of the population.

For those who may seek to preserve these customary relationships, there is cause for sober second thought. Many of those in the low income groups, who also consider that these customary relations are inherent in the system of private enterprise, are strong supporters of extreme reform movements to get rid of these very inequalities. Since the numbers in these underprivileged groups are so large and are rapidly developing the technique of organization and power to make their views politically effective, it must be recognized that they may soon acquire enough power to change the economic system completely if it fails to offer hope of betterment of their economic position. The economic position of those in our present more privileged classes would be far lower in any of these rival systems than the positions they would occupy under a reformed private enterprise system.

The members of the overcrowded low income groups would receive the chief benefits from the proposed changes, but at the same

time there would be compensating gains to offset some of the losses to those in higher income groups. The reduction in their income would be offset in part by a reduction in the amount the members of any one of these occupations would have to pay for services of other high income occupations. While the doctor's advantage would be reduced, he would pay less for the services of the lawyer, dentist, engineer and business man. At the same time, he would have to pay more for the services of the unskilled workman, the farmer and household servants. When this whole scheme of reform is considered, there would be additional reductions in the price of many commodities, especially durable consumer commodities such as automobiles, household furniture and homes because of the reduction in the rate of interest. There would also be decreased costs all the way along the line because of more efficient business management.

An additional important compensating factor would be a marked reduction in the rate of taxation that would otherwise be necessary to support the make-work programs, doles, unemployment relief and other policies that are sure to be utilized as long as our system offers the customary unsatisfactory rewards to large segments of our population. A perpetuation of this unsatisfactory situation may provide the basis for drastic changes in our economic system that will destroy the opportunity for a satisfactory economic system under freedom. This danger is so real that it cannot be safely ignored any longer.

We have constantly before us extensive areas of farm land that are not usable in production. To utilize such tracts would result in costs of operation in excess of returns and these are consequently abandoned and form no part of the productive equipment of the country. The yearly flow of worn machines and other capital equipment to the scrap heap is a very large one and part of this flow is made up of machinery and equipment that is still relatively new but has been rendered obsolete by new improvements. The widespread practice of rejecting unusable instruments of production is also the reason for large masses of unemployed workers. Society is largely free from any continuous burden from the rejection of submarginal land or capital. Both can be eliminated from use without further consideration being given to them. This is not the case, however, with labor, since society has come to assume more and more responsibility for those who do not derive sufficient wages from their participation in the process of production to support a minimum standard.

The public funds devoted to this purpose during the period of the thirties grew to a yearly figure that exceeded by several times the total amount of money we were expending on education in the United States. One of the most unfortunate features of the program was that it did nothing basic to remove the fundamental causes of such maladjustments. If the program here proposed were put into effect, this burden could be reduced to a mere fraction of the size

to which we have become accustomed. The fundamental logic of such a program is that it is aimed at solving the problem by eliminating its causes. It is, of course, highly probable that we will always have a residue of human beings who cannot be properly equipped to become effective agents of production, but there is no fundamental reason why millions of people in our country who are capable of some degree of mental and physical training cannot be equipped to participate effectively in our economic system.

Other Features of Reform Program

This program of economic reform should be accompanied by an intensification of the efforts to suppress violence and fraud and every form of activity designed to secure an income without providing worthwhile services and commodities in return. The waste caused by crime and dishonest methods of doing business is a severe drain on the resources of our economy and reduces the standard of living of the population materially.

Much energy should be devoted to improving the character of the desires of the consumers in an attempt to supplant those desires and habits of consumption that are degrading by other desires and habits that will maintain health and promote individual and social welfare. Man himself is the most important of the factors of production; for the productivity of a country depends more on the physical, mental, moral and spiritual nature of the population than on anything else.

This reform program will not require new or untried methods to attain its objectives. A large part of it can be accomplished by removing restrictions and improving the conditions under which forces already at work are now operating; especially by strengthening those institutions such as public education, which are already doing so much to bring about desired results. These institutions must, however, be greatly strengthened and their programs modified to accomplish these aims in a consciously directed and a greatly enlarged program.

The general method would be to cure the evils of our present system that result from scarcity by creating greater abundance and by reducing those factors which are overabundant. These balanced relationships will remove the causes of those maladjustments that now are giving rise to so much special legislation and which furnish the incentive to many of those who would transform our entire economic system in order to correct these difficulties.

The suggested program does not promise quick results. In fact, it will take one or more generations for it to come into full operation. Improvements, however, would start at once and a large portion of the program could be carried out in the course of a decade if extensive resources are made available immediately.

Many of the expenditures that will be required in the early stages from federal sources would later be unnecessary. Greatly enlarged sums of money made available for high standards of education in the rural areas would so improve the economic conditions that they could gradually assume full support for an adequate system of education without further subsidy. The same condition would in time prevail in the South and other areas that do not now have the financial ability to support the type of program required to effect the transformation. Had sums of money equivalent to the large amounts used to supplement the incomes of the farmers and the unemployed during the past decade been utilized to improve the standards of the schools, the cause of these relief expenditures would have been gradually removed and eventually rendered unnecessary. If sums equal to the vast amounts now planned in connection with postwar unemployment were allocated to this program, its success would be assured.

As many as two or three million of those that were in the unemployed classes in the decade of the thirties should have been in school. There are millions of potential employment opportunities that would be required to produce additional services and commodities that would be needed if the many millions in the uneducated portion of the American population were given a good education. The increase in demand for better food, clothing, furniture, housing, travel, books, magazines, art and many types of professional services that would be the inevitable result from an entire population educated on the same standards as is now being done under some of our better state educational systems would be sufficient to reduce unemployment to a minimum.

Had the standards of consumption in the entire country in 1940 been equal to those in six of the states with the highest standards, there would have been required: 783,000 additional professional and related workers, 968,000 additional workers in retail trade, 425,000 more employees in finance, insurance and real estate, and an additional million in other service activities. The undeveloped demands for commodities and services of the sixty percent of our adult population who terminated their formal education before reaching high school and millions of others with deficient education explains much of our widespread unemployment.

Elaborate programs of unemployment relief, make-work and other projects requiring expenditures of billions of dollars are being widely discussed and are likely to be approved. In contrast, the limited programs for improving educational standards now being considered will, if carried into practice, not even compensate for the losses incurred by the inflationary movements of the last several years. The laudable provisions for the educational rehabilitation of the returning service men have no counterpart in corresponding provisions for the multitude of American youth plodding their way

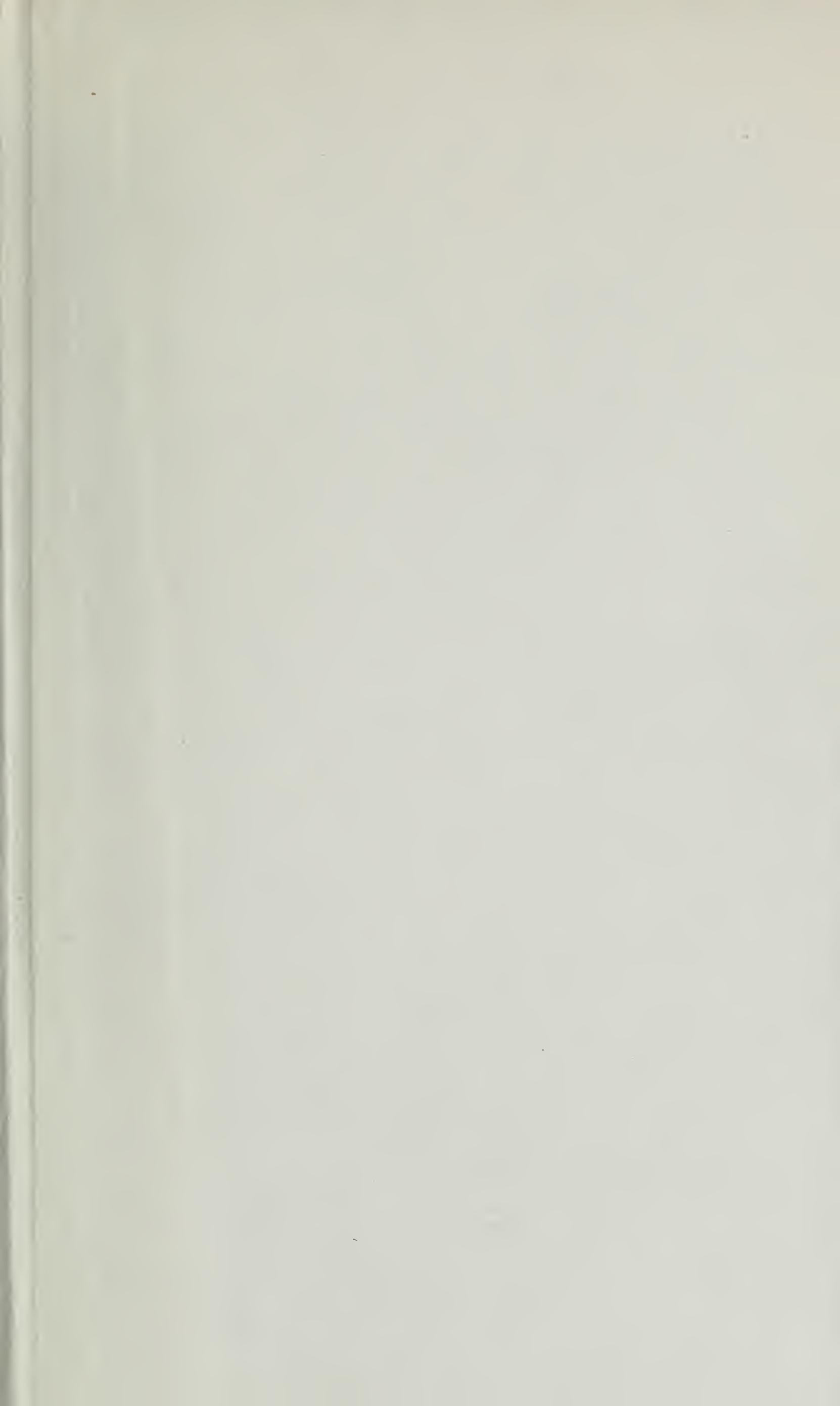
through poorly equipped elementary schools without prospects for a high school education and with the doors closed solidly against their entering the colleges of the country. In a few years these same underprivileged youths will add to the congestion in our overcrowded occupations, perpetuating both the poverty and the need for continued large expenditures to alleviate their unsatisfactory conditions.

It is easily within the range of possibility to create a balanced economic system under private enterprise in America that will afford to every citizen an income which will command a fair share of its economic goods and services. The maladjustments that have been the main cause of the unsatisfactory working of our economy can be removed, and the inequalities in the distribution of income and the exercise of economic power can be corrected by achieving an appropriate quantitative relation of the factors and occupations to each other. Far-reaching improvements in our economic system would come from properly educating and training the entire population and removing all obstacles to occupational redistribution. Public expenditures for relief, unemployment and the policing of business would be reduced to a mere fraction of what we now have in prospect.

There is urgent need for a universal understanding and acceptance of the goals and methods of this program of economic reform under private enterprise and for taking all necessary measures to carry it into full operation. The ideals of economic democracy can be achieved in America and a satisfactory economic life under freedom attained.

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